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AGRICULTURAL CREDIT AND COOPERATIVE ORGANIZATION

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AGRICULTURAL CREDIT AND COOPERATIVE ORGANIZATION

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PART I
GENERAL TRENDS

Supply of Agricultural Credit:

1. Whatever the economic and social system is, the mobilization of funds depends upon the ability of the national economy to collect and direct savings, to meet the production and consumption requirements of those working on the land. Obstacles emanating from the nature of agricultural production and from the positions of the agricultural sector in the national economy, hinder the supply of agricultural credit. The seasonality of income and price fluctuations, the length of production process and special hazards related to this production, the relatively high cost needed to increase the size of a farm, together with the weekness of the agricultural enterprise to attract capital funds constitute some of the most important factors, inherent to the agricultural production, which forge an obstacle for credit supply. As to the position of the agricultural sector in the national economy, it is evident that with economic maturity, the relative importance of the agricultural sector in the national economy diminishes. This phenomenon of the shift from agriculture towards other activities, affects the supply of private funds, including credit for agriculture.

2. Whereas, in the countries following the market economy system, funds for agricultural credit are mobilized through the interaction of market forces; this process is carried out, in countries of collective ownership system, within the public sector and according to the national plan. Agricultural credit in market economy system, is sometimes carried out by the private enterprise, including private Banks, Insurance companies, money-lenders, merchants and intermediaries. The cooperative machinery plays however, an important role. Because of the inefficiency of the private enterprise and of the classical cooperation, to provide adequate credit for agriculture, the gap has to be filled in by the state; either through backing the cooperative organization in a direct manner or by establishing specialized agencies for this very purpose. The central Bank may also be allocated a part in this field.

Case of Under-developed Countries:

3. The level of national and per-capita income is low. The few available savings do not allow the mobilization of sufficient resources for agricultural credit. This is the core of the problem of economic development. In some of these countries, however, the ability to mobilize resources does not only depend on the level of income, but also corresponds to the progress made to establish a monetary economy. Other obstacles, however, stand in the way of agricultural credit supply in under-developed countries. Lack of securities, owing to ownership fragmentation or to defeciency of legal protection, increases risks of agricultural credit and curtails its availability. Moreover, if the process of transformation of the national economy, through investment in non-farming sectors, has been under way, private funds seeking, by their very nature the maximum yield, are tempted away from meeting the credit requirements of the farmers. Banks operating in many of these countries are branches of Foreign Banks. Their activities, carried out in big cities and ports, are almost for trade financing; especially import and export trade. In some countries, however, private foreign capital participated, since the XIXth century, in financing agricultural development.

4. When an under-developed country embarks upon the road of industrial development, need for agricultural credit grows. This is because, in some rural communities, additional income is obtained through a number of manual industries. The farmers are thus enabled to curtail their credit demands. But with economic development and the growth of mechanized industry, rural small-scale industries almost disappear. Rising need for outside finance therefore accrues. On the other hand, industrial expansion by means of public enterprises creates a self generating tendency towards the expansion of the industrial public sectors; and both the relations between the public and private sectors or between the industrial and agricultural sectors are affected, in favour of the industrial public sector (1). In fact an ambitious program of economic development does not only bring about increasing need for new credit requirements; changes in the legal, economic and social institutions, which frequently accompany the execution of such a program, exert substantial influence on the credit market. The agricultural credit system prevailing before these changes take place should be reviewed and adapted. As an example, let it suffice to mention the need for adjustment consequential upon land reform and the restrictions imposed upon private property (I). It seems then incumbent on the state in developing countries, to face the problem of agricultural credit, short and long term.

(I) A. El Tanamli; The role of public enterprises in economic development; contemporary Egypt, , 1962, P.P. 5 - 24.

The Role of Cooperative Societies:

5. Cooperative Societies had their part in Agricultural credit. Agricultural funds were formed by savings contributed by the member farmers. The Society thus formed could borrow by the guarantee of all the possessions of the members. Several such Societies (Raiffeisen) were founded in Germany and Switzerland since the eighteenth century, and spread to many parts of the world in Europe, Asia and Latin America. Some forms of agricultural credit cooperation did not depend upon Government but followed the pace of traditional cooperation; while other forms, such as the system of mutual agricultural credit in France and the system operating in the U.S. of America, under the auspices of the Farm Credit Administration (F.C.A.) function with governmental help. Whereas most of the credit cooperative societies fall under the latter category, it is to be noted that government intervention is still considered, by adherents to the classical conception of cooperation, as a distortion of basic principles. In their opinion, cooperatives must only resort to their own resources.

6. In underdeveloped countries, the cooperative organization is sometimes called upon merely to participate in conveying the distribution of agricultural credit, while money-lenders and merchants still provide the mass of finance. However, the help given by the state is not modest. It is channelled either in the form of direct subsidies to cooperatives or through the central bank or a specialized agency. The state endeavours, furthermore, to make the cooperative machinery share in the collection of resources for agricultural credit. Because of large government intervention, the cooperative organization, in underdeveloped countries, takes forms that cannot be included within the framework of the classical cooperation. The principle of cooperation is made sometimes compulsory.

7. The factors, both inherent in and leading to this evolution are varied and depend upon conditions particular to each country. But we believe that the establishment of a compulsory "cooperative" organization in communist countries and the success of these countries in achieving rapid economic growth are factors underlying the adoption by the developing countries of compulsory forms of cooperation. In addition, where free cooperation flourished, there has been no strict adherence to the classical forms of cooperation; other different forms, not completely conforming to the classical type, were set up. Underdeveloped countries, therefore, did not see any reason to tie themselves to rigid rules, in adapting their cooperative machinery so as to be an effective instrument in the social and economic field. In this, Dr. Horace Belshaw writes:

8. "Indeed the thinking in cooperatives is so much in a state of flux, and so many heterodox ideas are current, as to cause the prophets of the pure and orthodox cooperative gospel to turn in their graves. But, in the environment of under-developed

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1) A. El Tanamli; les Banques de Crédit Foncier en Egypte; L'Egypte Contemporaine, 1959, p. 5-35.
A. El Tanamli; The relations between land reform in underdeveloped countries and economic development programs; L'Egypte Contemporaine, 1956, P. 89.

countries, it would be unscientific to require the rigid application of dogmas, and a pragmatic attitude is called for. The final test is what works. In some cases this requires an explanatory approach to try out ideas and methods before an attempt is made to develop cooperatives on any scale". (I).

PART II

THE U.A.R. PATTERN.

Development of Agricultural Credit in the U.A.R.

9. Agricultural credit has a special importance in the Egyptian economy of modern times. Though the exceptional growth of the Egyptian agriculture, during the nineteenth century, was financed by public funds; long-term credits had their share in financing agricultural development, since the erection of the Asswan dam at the beginning of the XXth century. It also facilitated the distribution of vast areas of arable land among a larger number of proprietors. Due, however, to the impact of the great depression, a number of proprietors failed to pay their debts to real estate banks, and the government intervened to carry part of the burden of debts. The government also tried to organize the supply of short-term credit to agriculture.These attempts culminated in the establishment of the "Credit Agricole d'Egypte" in 1931.

10. As regards the share of the commercial banks in financing agricultural production, before the establishment of the "Credit Agricole d'Egypte", this share was limited, as their activities were principally directed to financing trade, external trade in particular. Although at the present time, these banks extend their credit facilities to different kinds of activities(trade, industry and services), the size of direct credit facilities given to the farmers is still very limited. The National Bank of Egypt (Central Bank) carried particular responsabilities in the development of agricultural credit. It is through the advances of the Central Bank that the "Credit Agricole et Cooperatif," is financed nowadays. It is to be noted, that moneylenders as well as merchants and intermediaries, especially cotton merchants and dealers, have an important part, in credit supply to agriculture. This predominence is not affected by their actual reliance on loans advanced to them by commercial banks.

11. Cooperative societies endeavoured to share in the agricultural credit organization; but always with a limited amount of success; owing to the small size of its resources. Another reason for this limited success was the early maturity of the banking system in Egypt, as , since the closing quarter of the nineteenth century, commercial and real estate banks were established and their activities flourished. Since 1952, increased attention was, for several political and social reasons, paid to cooperation; with the purpose of using cooperative societies as an instrument for the distribution of agricultural credit.

(I) Horace Belshaw; Agriculture Crédit, F.A.O., Rome 1959, P.148

12. The execution of the Agrarian Reform, subsequent to the revolution of July 1952, led to the creation of new types of supervised agricultural cooperative societies of multifarious purposes. Since then, the movement of substituting the cooperative organization, for other forms of economic organization, crystallized in a unique manner.

13. The historical evolution of agricultural credit reveals three stages. The first stage covers the period preceding the establishment of the "Credit Agricole d'Egypte",in 1931, and this was the period of real estate credit.The second stage, the period of the "Credit Agricole d'Egypte", extends from the year 1931 up to the promulgation of the Agrarian Reform Law in 1952. From the year 1952 up to the present time the third stage of cooperative organization has been prevalent.It should however, be remarked that, with the overlapping of these stages, their chronological limits are somewhat arbitrary.

Agricultural Loans of Real Estate Banks

The role of real estate banks in financing agriculture.

14. In view of the exceptional role of real estate credit in the agricultural credit history of Egypt, and the substantial change occured over it, in financing agriculture; it deserves mention in this paper. The "Credit Foncier Egyptien" was, and still is, the biggest real estate bank in Egypt, with its advances representing an important share of total real estate credit.Table I shows, during the period from 1914 to 1960, total real estate loans in Egypt, total loans advanced by real estate banks and loans advanced by the "Credit Foncier Egyptien".

TABLE I (£ Million)

Years	Total real estate loans	Loans advanced by real estate banks including "Credit Foncier Egyptien"		Loans advanced by "Credit Foncier Egyptien"		Loans advanced by other sources.	
		Amount	%of total loans	Amount	%of total loans	Amount	%of total loans
1914	46	39	85	31	67	7	15
1922	32	26	81	21	65	6	19
1929	29	25	86	20	69	4	14
1943	18	14	78	11	61	4	22
1954	17	12	70	10	59	5	30
1958	23	19	83	12	52	4	17
1960	24	20	84	13	54	4	16

The amount given in the Table I, in order to show total real estate credits advanced by banks, largely represent - up to 1943 - agricultural loans only.

15. In illustration of the importance of credit advanced by real banks to agriculture and of its decrease, especially since the second world-war, Table II is given to show the balances of

real estate credit granted by the "Credit Foncier Egyptien" as well as new credit advanced during the period from 1914 to 1958. Against these figures the value of the cotton crop is set for comparison.

TABLE II (£ Million)

Year	Balances of Agricultural real estate credit by the end of year.	New Loans during the year	Value of cotton crop
1914	22.5	2.7	15
1922	16.5	1.5	41
1929	15.0	2.1	34
1943	9.5	-	22
1954	3.8	0.2	97
1958	3.1	0.1	134

Short- term credit

Before the "Credit Agricole d'Egypte"

Role of the Government in the establishment of "agricultural credit bank"

16. Long-term credit institutions, which require the lodging of a mortgage, do not solve the financing problems of the small farmer. Nor do they satisfy the short-term credit requirements of the big landowner. The government endeavoured late in the nineteenth century to meet these requirements and, at the same time, to put an end to the unscrupulous money-lenders.The attempt was, however, limited. The "Agricultural Bank of Egypt " was set up in 1902 under the auspices of the government and the National Bank of Egypt. To protect the small farmer against money-lenders, the "five-feddan (1) law was promulgated in 1913, prohibiting the seizure of properties not exceeding five feddans, in settlement of debts contracted after the enactment of the law. But as a result of this law the bank's operations were almost paralysed.

Le "Credit Agricole et Cooperatif"(2)

17. The "Credit Agricole et Cooperatif" was set up in July 1931, to meet the urgent need of agriculture for a financing organization, after the liquidation of the "Agricultural Bank" and after it proved impracticable for the government to handle the extention of financial aid to farmers, either directly or through ordinary credit institutions. The Bank took the form of a semi-public institution, with a capital of £. 1m., half of which was subscribed by the Government, the rest being taken up by banks and financial institutions. A 5% annual return is guaranteed by the Government. In 1948, the Bank's capital was increased by £.0.5 m., half of which was provided by the Government and the rest by cooperative societies. In 1961, the Bank was nationalised.

(1) a feddan = 1,038 Acres

(2) The word "Bank" will be used for "Credit Agricole & Cooperatif"

Types of loans advanced by the bank.

18. There are three different categories:
(a) Short term credit, for periods not exceeding 14 months. It includes:
Cash loans, to meet cost of planting and harvesting;
Loans guaranteed by agricultural crop, and same of seeds and fertilizers against future payments.
(b) Loans for periods not exceeding 10 years, against mortgage guarantee, to purchase agricultural machinery and livestock or for land reclamation
(c) Loans for periods not exceeding twenty years, for the exploitation and reclamation of land, with a mortgage guarantee.
-Regarding the rate of interest it settled at 5% for individuals and 3% for cooperative societies.
In 1960 it was decided that the Bank's loans bear no interest.

Growth of activities.

19. Total Bank loans developed from £2m. in 1931/32, to about £37m. in 1960, mostly in short-term credit, whether in cash or otherwise. Table annexed illustrates this fact. It should be noted that, though no restriction was imposed upon the loans granted to cooperative societies, since the conversion of the Bank into a Bank for all cooperative (agricultural or otherwise) in 1948; such loans are still in the nature of agricultural short-term credit. Only limited changes took place in the last few years.

Trade Activities:

20. The Bank takes delivery of crops and supply goods (wheat and rice), either by buying it at a fixed price or by importing such or other goods (flour and jute); and carries out their distribution with other goods (sugar, oil and barley).

Financing of the Bank's activity:

21. Apart from its capital, reserves and provisions, the Bank obtained from the government, since its establishment, a permanent loan of £,6m. The government procures financing for supply operations. The Bank retained and used for its operation the unutilized part of these supply credits. The sums retained by the Bank amounted to more than £12m. on June 1950. In 1956 the Bank was authorized to issue long term bonds (20/30 years) within the limit of 20 millions, at an annual interest rate of 3%. The National Bank of Egypt (Central Bank) subscribed to the total of these bonds; but the proceeds were used in repaying the bulk of the Bank's debit to the government. In 1961 the amount of long term bonds subscribed by the Central Bank, was raised to £30, millions. This does not include credits to finance supply operations, which amounted to £16.8 millions by the end of 1960. The Bank also borrows from the Central Bank against goods and securities. In 1961, bills for three years and in the amount of £20, millions were issued by the Bank and subscribed by the Commercial Banks. These bills are discountable with the central Bank. The Bank is allowed to accept deposits from cooperative societies. The end-of-year

balance in 1960 amounted to £3.7m.

22. The following condensed balance sheet shows the activities of the Bank and its financing.

Condensed Balance Sheet

At December 31, 1960.

Assets:	
Cash at Banks	£. 4.180.763
Investments in securities	2.110.054
Loans to Cooperative Societies & Individuals	19.137.285
Stocks of fertilizers, jute bags, pest control chemicals etc. in stores and in transit.	11.273.824
Purchase of agricultural produce for Government account.	22.034.332
Sundry accounts	6.804.452
	£.65.540.710
Liabilities:	
Capital: 375000 Ordinary shares of £4. each fully paid	£. 1.500.000
Statutory reserve	337.649
Reserves and provisions	2.425.384
Loans and borrowings	38.947.108
Egyptian Government: supply accounts	7.303.979
Cooperative Societies:current accounts	3.700.577
Provision for staff and workmen's indemnities	2.559.617
Sundry creditor accounts	8.671.666
Net profit for year 1960	94.730
	£.65.540.710

The system of cooperative credit:

23. Though the Bank was originally designed to offer its services to small landowners and to cooperative societies, in practice big landowners profited from it up to 1952.Tenants could not borrow from the Bank, except through cooperative societies, which did not operate in a satisfactory manner until 1956, when "the cooperative credit system" was adopted. This system is concomitant with the carrying out of the Agrarian Reform, and the establishment of the cooperative Agrarian Reform Societies, which are state-organized societies and of the multifarious purpose type. According to the "cooperative credit system" not only loans and other credit facilities are delivered to landowners and tenants through the cooperative, but also the system of supervised credit is applied. Availability of credit is accompanied by the exertion of efforts to improve the agricultural production and the rural standard of living. The Credit Agricole et Cooperatif, through its technical staff has to supervise the use of loans and to offer its advice.

PART III

Concluding Remarks:

24. Economic, social and political considerations, make it

essential, for developing countries, to maintain a high rate of growth for agriculture. Many factors require that optimal means of agricultural finance be given increased attention and organization. In fact, economic, social and legal changes, which accompany the planned industrial development, lead to contraction in the mechanism, which was financing agriculture, before embarking on the process of development. As a result, the state assumes an important responsability, in providing funds for financing agriculture, either by direct investment or by credit expansion.

25. The need for agricultural credit may be small, as long as direct financing is an efficient substitute. It should be noted, however, that, with the system of private property as the foundation for the social and economic organization of agriculture, direct finance cannot completely replace credit.

26. The mobilization of resources for agricultural credit remain, therefore, one of the most important tasks of the government. The cooperative system can be used however in the distribution of agricultural credit.

27. The following points can be of use for developing countries:

a) Before attempting to organize the machinery of agricultural credit, it is necessary to survey existing needs and resources. This survey must include resources of money-lenders and merchants, who usually procure an important part of agricultural credit.

b) No waste of resources should be involved in the process of distribution, whether within cooperative societies or the financing institution. The waste can take place on account of utilizing resources, where they are not most productive. Thus, it should be assured that loans are utilized in conformity with the purposes for which they were originally granted. Loans should also be repaid on their due date, so that funds allocated for agricultural credit may continue to be in the nature of a revolving fund.

c) Moreover, waste is frequently generated by the common and erroneous belief, that profit criterion is not applicable in the field of agricultural cooperative credit. Such a criterion should, neverthless, be adhered to. Public or cooperative enterprises, which produce for the market and can measure the success of their activities in terms of monetary profit (surplus) have to be judged by market criteria.

28. If for special considerations, interest on loans provided by the "Crédit Agricole et Coopératif" was cancelled, this does not mean that there is no criteria, by which the success of the Bank can be assessed. Such assessment is still possible, perhaps by means of an accounting profit measure, whereby interest is recorded without being collected (1).

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(1) Total interest due over loans advanced by the "Crédit Agricole in the financial year 1960, are estimated for about £ lm.

ANNEX

(Table III) CREDIT FACILITIES GRANTED BY THE "CREDIT AGRICOLE ET COOPERATIF
1953 - 1960

(In £.1000)

YEARS / CATEGORIES OF CREDIT	1953	1954	1955	1956	1957	1958	1959	1960
SHORT-TERM CREDIT								
Individuals	12.561	12.890	13.526	10.965	11.934	12.190	8.806	5.682
Cooperative Societies	3.452	3.973	4.705	5.295	6.392	9.577	16.730	25.880
Cooperative credit for different purposes.	264	451	1.014	(1)1.250	(3)1.742	(4)2.501	3.271	3.581
	16.277	17.314	19.245	17.510	20.068	24.268	28.807	35.143
MEDIUM-TERM CREDIT								
Individuals .	12	9	11	-	10	5	9	94
Cooperative Societies	84	114	153	(2) 220	127	201	575	1.220
Cooperative credit for different purposes.	-	-	51	-	-	-	5	183
	96	123	215	220	137	206	589	1.497
LONG-TERM CREDIT								
Cooperative credit for different purposes.	12	11	13	-	-	-	17	32
T O T A L	16.385	17.448	19.473	17.730	20.205	24.474	29.413	36.672

(1), (3), (4) Including some medium and long term credit "for different purposes"

(2) Including a small proposition of credit granted to individuals for land reclamation.